

***Fundamentals of Multinational Finance, 3e (Moffett)***  
**Chapter 1 Globalization and the Multinational Enterprise**

**1.1 Multiple Choice and True/False Questions**

- 1) Which of the following are critical to a firm trying to reach the top of the "firm value pyramid"?
- A) an open market place
  - B) high quality strategic management
  - C) access to capital
  - D) all of the above

Answer: A

Topic: Firm Value

Skill: Conceptual

- 2) A well-established, large firm U.S.-based MNE will probably not be able to overcome which of the following obstacles to maximizing firm value?
- A) an open market place
  - B) high quality strategic management
  - C) access to capital
  - D) none of the above

Answer: D

Topic: Firm Value

Skill: Recognition

- 3) Three necessary conditions for a firm to reach the top of the "firm value pyramid" are an open market place, high quality strategic management, and access to capital.

Answer: TRUE

Topic: Firm Value

Skill: Conceptual

- 4) A well-established, large China-based MNE will probably be most adversely affected by which of the following elements of firm value?

- A) an open marketplace
- B) high-quality strategic management
- C) access to capital
- D) access to qualified labor pool

Answer: A

Topic: Firm Value

Skill: Conceptual

- 5) A well-established, large, Brazil-based MNE will probably be most adversely affected by which of the following elements of firm value?

- A) an open marketplace
- B) high-quality strategic management
- C) access to capital
- D) access to qualified labor pool

Answer: C

Topic: Firm Value

Skill: Conceptual

6) The theory that suggests specialization by country can increase worldwide production is \_\_\_\_\_.

- A) the theory of comparative advantage
- B) the theory of foreign direct investment
- C) the international Fisher effect
- D) the theory of working capital management

Answer: A

Topic: Comparative Advantage

Skill: Recognition

7) Which of the following would NOT be a way to implement comparative advantage?

- A) IBM exports computers to Egypt.
- B) Computer hardware is designed in the United States but manufactured and assembled in Korea.
- C) Water of the greatest purity is obtained from wells in Oregon, bottled, and exported worldwide.
- D) All of the above are examples of ways to implement comparative advantage.

Answer: D

Topic: Comparative Advantage

Skill: Conceptual

8) Which of the following would NOT be considered a feature of comparative advantage?

- A) Exporters in Country A sell goods or services to unrelated importers in Country B.
- B) Firms in Country A specialize in making products that can be produced relatively efficiently, given Country A's endowment of factors of production. Firms in Country B do likewise thus maximizing the combined output of Countries A and B.
- C) Trade exists between Countries A and B because of specialized factors of production that cannot be moved among countries.
- D) All of the above are features of comparative advantage.

Answer: D

Topic: Comparative Advantage

Skill: Recognition

9) Of the following, which would NOT be considered a way that government interferes with comparative advantage?

- A) tariffs
- B) managerial skills
- C) quotas
- D) other non-tariff restrictions

Answer: B

Topic: Comparative Advantage

Skill: Recognition

10) Comparative advantage shifts over time as less developed countries become more developed and realize their latent opportunities.

Answer: TRUE

Topic: Comparative Advantage

Skill: Recognition

- 11) Comparative advantage was once the cornerstone of international trade theory, but today it is archaic, simplistic, and irrelevant for explaining investment choices made by MNEs.

Answer: FALSE

Topic: Comparative Advantage

Skill: Recognition

- 12) In determining why a firm becomes multinational there are many reasons. One reason is that the firm is a market seeker. Which of the following is NOT a reason why market seeking firms produce in foreign countries?

- A) satisfaction of local demand in the foreign country
- B) satisfaction of local demand in the domestic markets
- C) political safety and small likelihood of government expropriation of assets
- D) All of the above are market-seeking activities.

Answer: C

Topic: Comparative Advantage

Skill: Recognition

- 13) \_\_\_\_\_ investments are designed to promote and enhance the growth and profitability of the firm. \_\_\_\_\_ investments are designed to deny those same opportunities to the firm's competitors.

- A) Conservative; aggressive
- B) Defensive; proactive
- C) Proactive; defensive
- D) Aggressive; proactive

Answer: C

Topic: Comparative Advantage

Skill: Recognition

- 14) Which of the following is NOT considered to be a type of competitive advantage that may be enjoyed by an MNE?

- A) managerial and marketing expertise
- B) superior technology due to investment in research and development
- C) increased agency costs
- D) differentiated products

Answer: C

Topic: Comparative Advantage

Skill: Recognition

- 15) Which of the following is NOT considered to be a type of competitive advantage that may be enjoyed by an MNE?

- A) competitiveness in their home markets
- B) foreign exchange risks
- C) economies of scale
- D) economies of scope

Answer: B

Topic: Comparative Advantage

Skill: Recognition

- 16) The phase of the globalization process characterized by imports from foreign suppliers and exports to foreign buyers is called the
- A) domestic phase.
  - B) multinational phase.
  - C) international trade phase.
  - D) import-export banking phase.

Answer: C

Topic: The Globalization Process Fundamentals

Skill: Recognition

- 17) The authors describe the multinational phase of globalization for a firm as one characterized by the
- A) ownership of assets and enterprises in foreign countries.
  - B) potential for international competitors or suppliers even though all accounts are with domestic firms and are denominated in dollars.
  - C) imports from foreign suppliers and exports to foreign buyers.
  - D) requirement that all employees be multilingual.

Answer: A

Topic: The Globalization Process Fundamentals

Skill: Recognition

- 18) Of the following, which was NOT mentioned by the authors as an increase in the demands of financial management services due to increased globalization by the firm?
- A) evaluation of the credit quality of foreign buyers and sellers
  - B) foreign consumer method of payment preferences
  - C) credit risk management
  - D) evaluation of foreign exchange risk

Answer: B

Topic: The Globalization Process, Financial Management

Skill: Recognition

- 19) The authors describe the multinational phase of globalization for a firm as one characterized by the
- A) ownership of assets and enterprises in foreign countries.
  - B) potential for international competitors or suppliers even though all accounts are with domestic firms and are denominated in dollars.
  - C) imports from foreign suppliers and exports to foreign buyers.
  - D) requirement that all employees be multilingual.

Answer: A

Topic: The Globalization Process Fundamentals

Skill: Recognition

- 20) Of the following, which was NOT mentioned by the authors as an increase in the demands of financial management services due to increased globalization by the firm?
- A) evaluation of the credit quality of foreign buyers and sellers
  - B) foreign consumer method of payment preferences
  - C) credit risk management
  - D) evaluation of foreign exchange risk

Answer: B

Topic: The Globalization Process, Financial Management

Skill: Recognition

21) Typically, a firm in its domestic stage of globalization has all financial transactions in its domestic currency.

Answer: TRUE

Topic: *The Globalization Process Fundamentals*

Skill: *Conceptual*

22) A firm in the International Trade Phase of Globalization

A) makes all foreign payments in foreign currency units and all foreign receipts in domestic currency units.

B) receives all foreign receipts in foreign currency units and makes all foreign payments in domestic currency units.

C) bears direct foreign exchange risk.

D) none of the above.

Answer: C

Topic: *The Globalization Process Fundamentals*

Skill: *Conceptual*

23) The exposure to foreign exchange risk known as Translation Exposure may be defined as

A) changes in reported owners' equity in consolidated financial statements caused by a change in exchange rates.

B) the impact of settling outstanding obligations entered into before change in exchange rates but to be settled after change in exchange rates.

C) the change in expected future cash flows arising from an unexpected change in exchange rates.

D) all of the above.

Answer: A

Topic: *The Globalization Process Fundamentals*

Skill: *Conceptual*

24) The twin agency problems limiting financial globalization are caused by these two groups acting in their own self-interests rather than the interests of the firm.

A) rulers of sovereign states and unsavory customs officials

B) corporate insiders and attorneys

C) corporate insiders and rulers of sovereign states

D) attorneys and unsavory customs officials

Answer: C

Topic: *Firm Value*

Skill: *Recognition*

**TABLE 1.1**

Use the information in the table to answer following question(s).

	Production Capability	
	Containers of Snowboards	Containers of Digital Cameras
Austria has 1000 production units:	15 containers/unit	8 containers/unit
Russia has 1000 production units:	12 containers/unit	3 containers/unit

- 25) Refer to Table 1.1. A production unit in Austria has a/an \_\_\_\_\_ over a production unit in Russia in \_\_\_\_\_.

A) absolute disadvantage; digital cameras  
B) absolute disadvantage; snowboards  
C) absolute advantage; both cameras and snowboards  
D) none of the above

Answer: C

Topic: Absolute Advantage

Skill: Conceptual

- 26) Refer to Table 1.1. Austria has a larger relative advantage over Russia in the production of \_\_\_\_\_ at a ratio of \_\_\_\_\_.

A) snowboards; 5 to 4  
B) cameras; 8 to 3  
C) snowboards; 8 to 3  
D) cameras; 3 to 8

Answer: B

Topic: Absolute Advantage

Skill: Conceptual

- 27) Refer to Table 1.1. Assume no trade between Russia and Austria. If each country put 50% of their production units into each product, the total number of snowboards and digital cameras produced by the two countries combined are \_\_\_\_\_ and \_\_\_\_\_.

A) 15,000 snowboards; 3,000 digital cameras  
B) 6,000 snowboards; 4,000 digital cameras  
C) 2,750 digital cameras; 6,750 snowboards  
D) 15,000 digital cameras; 1,000 snowboards

Answer: C

Topic: Absolute Advantage

Skill: Analytical

- 28) Refer to Table 1.1. If trade takes place at Brazil's domestic price, \_\_\_\_\_ snowboards will be required to obtain 1 digital camera.

A) 4  
B) 2 and 2/3  
C) 1.25  
D) 0.25

Answer: A

Topic: Absolute Advantage

Skill: Analytical

- 29) Refer to Table 1.1. If each country specializes in their production with Austria producing only digital cameras and Russia producing only snowboards, at a trading rate of three snowboards per digital camera, how many cameras and snowboards will be available to be consumed in Austria if they trade 3,000 cameras to Russia?
- A) 9,000 snowboards and 5,000 digital cameras
  - B) 3,000 snowboards and 3,000 digital cameras
  - C) 3,000 snowboards and 9,000 digital cameras
  - D) There is not enough information to answer this question.

Answer: A

Topic: Absolute Advantage

Skill: Analytical

- 30) Refer to Table 1.1. If each country specializes in their production with Austria producing only digital cameras and Russia producing only snowboards, at a trading rate of three snowboards per digital camera, how many cameras and snowboards will be available to be consumed in Russia if they trade 9,000 snowboards to Austria?
- A) 9,000 snowboards and 5,000 digital cameras
  - B) 3,000 snowboards and 3,000 digital cameras
  - C) 3,000 snowboards and 9,000 digital cameras
  - D) There is not enough information to answer this question.

Answer: C

Topic: Absolute Advantage

Skill: Analytical

## 1.2 Essay Questions

- 1) List and explain three strategic motives why firms become multinationals and give an example of each.

Answer: The authors provide 5 strategic motives for firms to become multinationals: market seekers, raw materials seekers, production efficiency seekers, knowledge seekers, and political safety seekers. Market seekers are looking for more consumers for their products such as automobiles or steel. Knowledge seekers may be looking for an educated workforce similar to the way firms seeking R and D set up shop in university towns. Raw materials seekers may be after commodities such as oil or copper. Production efficiencies may occur in countries like Mexico that have capable workers and lower wages. Political safety seekers are looking for countries that will not expropriate their assets, so they may stay away from countries that in the past have engaged in such activities.